



Becton, Dickinson & Co. (BDX)

Updated November 5th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$236	5 Year CAGR Estimate:	10.7%	Market Cap:	\$68.3 billion
Fair Value Price:	\$230	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/9/2020 ¹
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date:	12/31/2020 ²
Dividend Yield:	1.3%	5 Year Price Target:	\$370	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	2.6%

Overview & Current Events

Becton, Dickinson & Co., or BD, is a global leader in the medical supply industry. The company was founded in 1897 and has almost 50,000 employees across 190 countries. The company generates around \$19 billion in annual revenue, with approximately 45% of revenues coming from outside of the U.S. BD has been very active on the acquisition front in recent years. In 2015, the company acquired CareFusion, a leading supplier of diagnostic products and medical devices. BD completed its \$24 billion purchase of C.R. Bard at the end of 2017. Bard consisted of four divisions: Vascular, Oncology, Urology and Surgical Specialties. After the Bard acquisition, BD is now composed of three segments. Products sold by the Medical Division include needles for drug delivery systems, and surgical blades. The Life Sciences division provides products for the collection and transportation of diagnostic specimens. The Intervention segment includes several of the products produced by Bard.

On 11/5/2020, BD released earnings results for the fourth quarter of fiscal 2020. Revenue increased 4.4% to \$4.8 billion, \$300 million better than expected. Adjusted earnings-per-share of \$2.79 was a 15.7% decrease from the prior year, but \$0.25 above estimates. For the fiscal year, revenue declined 1% to \$17.1 billion. Adjusted EPS of \$10.19 was 12.8% lower than the prior year, but \$0.29 above the midpoint of the company's guidance. All results are listed on a currency neutral basis. BD estimates that COVID-19 related purchases added \$400 million to top line results. Revenue for the Medical segment was down 4.9%. This decline was led by a 14.5% decrease in medical management solutions due to recalls and tough comparisons from the prior quarter. Pharmaceutical was up 12.6% due to high demand for pre-filled and safety syringes. COVID-19 was a 1.2% headwind to results for this segment. Life Science was up 31.4% as sales for diagnostic systems almost doubled due to increased demand for COVID-19 testing systems. This segment was up 5.2% when excluding COVID-19 related purchases. Interventional revenue was lower by 3.5% year-over-year. Surgery fell 9.1% due to fewer elective surgeries while urology and critical care improved 0.9% due to growth in home care and acute urology. COVID-19 is estimated to have reduced results by 11.2% for this segment. By geographies, U.S. sales were up 7.4% while outside of the U.S. fell 0.5%. Gains in Europe were offset by weakness in China, EMA and Latin America. BD gave initial guidance for fiscal 2021 and expects adjusted earnings-per-share of \$12.40 to \$12.60, which would be a 23% increase at the midpoint compared to fiscal 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$5.62	\$5.36	\$5.81	\$6.25	\$7.16	\$8.59	\$9.48	\$11.01	\$11.68	\$10.19	\$12.50	\$20.13
DPS	\$1.64	\$1.80	\$1.98	\$2.18	\$2.40	\$2.64	\$2.92	\$3.02	\$3.08	\$3.16	\$3.16	\$5.09
Shares³	215	197	194	192	211	213	228	265	265	293	293	265

BD has increased earnings-per-share 7.8% per year over the past 10 years, and has grown earnings in 9 out of the last 10 years. We feel that BD can grow earnings at a rate of 10% per year through fiscal 2026 due to a combination of mid-single-digit organic sales growth, revenue gains due to Bard, and a lower projected tax rate.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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BD has increased dividends for 48 years. The company increased its dividend by 2.6% for the 12/31/2019 payment, which was in-line with the increase from the previous year. While this is well below the long-term average, investors should know that the Bard acquisition is the largest in BD's history and that 70% of the purchase price was paid for in cash. We believe that the company's dividend growth rate will eventually be more in line with its historical average once BD's cash position improves. BD has a low payout ratio allowing for plenty of room for additional increases in the future.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.5	14.1	15.6	18.1	19.5	18.4	19.4	22.7	21.7	22.8	18.9	18.4
Avg. Yld.	2.0%	2.4%	2.2%	1.9%	1.7%	1.7%	1.6%	1.6%	1.2%	1.4%	1.3%	1.4%

BD's stock has decreased \$20, or 7.8%, since our 7/8/2020 report. Based on estimates for fiscal 2021, BD's stock currently has a price-to-earnings ratio of 18.9. Our target price-to-earnings ratio for 2025 is 18.4, which is a result of factoring in the forecasted 10% rise in earnings-per-share. If the stock reverts to our five-year P/E target, then valuation would be a 0.5% headwind to annual returns over this time period. BD's current yield of 1.3% is below the stock's five-year average of 1.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

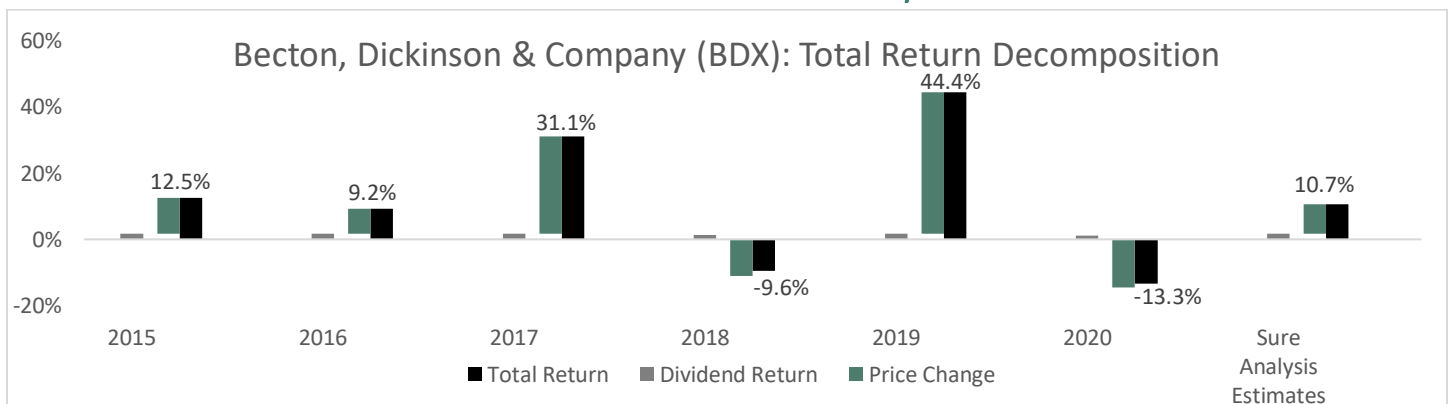
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	34%	34%	35%	34%	31%	31%	27%	26%	31%	25%	25%

BD showed that it can perform well in less than ideal economic conditions during the last recession. The company's key competitive advantage is that its products are in high demand as medical devices and other healthcare products are still sought out during a recession. People will seek medical care regardless of how the economy is performing. This ability to grow or maintain earnings in any economic climate makes BD a quality company and a safe stock. The acquisition of Bard should also add to both the top and bottom lines going forward and increases the company's exposure to China.

Final Thoughts & Recommendation

Becton, Dickinson & Co. is expected to offer a total return of 10.7% annually over the next five years, up from 4.2% previously. This is due to a 10% expected earnings growth rate and a 1.3% dividend yield offset by a mild valuation reversion. COVID-19 continues to negatively impact certain businesses, but also added ~\$400 million to revenues for the quarter. The company managed to produce EPS above the midpoint of its guidance. BD expects the current fiscal year to be significantly better as well. We have raised our five-year price target \$77 to \$370 due to EPS guidance for the current fiscal year. BD also now receives a buy recommendation from Sure Dividend due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	7124	7584	7708	8054	8446	10282	12483	12092	15983	17290
Gross Profit	3696	3959	3953	4171	4301	4695	5991	5941	7262	8288
Gross Margin	51.9%	52.2%	51.3%	51.8%	50.9%	45.7%	48.0%	49.1%	45.4%	47.9%
SG&A Exp.	1691	1824	1923	2422	2145	2563	3005	2925	4015	4332
D&A Exp.	491	494	511	546	562	891	1114	1088	1978	2253
Operating Profit	1582	1665	1558	1255	1606	1500	2158	1832	2241	2240
Operating Margin	22.2%	22.0%	20.2%	15.6%	19.0%	14.6%	17.3%	15.2%	14.0%	13.0%
Net Profit	1318	1271	1170	1293	1185	695	976	1100	311	1220
Net Margin	18.5%	16.8%	15.2%	16.1%	14.0%	6.8%	7.8%	9.1%	1.9%	7.1%
Free Cash Flow	1118	1117	1207	1129	1093	1134	1866	1823	1970	2373
Income Tax	452	417	363	236	337	44	97	-124	862	-57

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	9651	10430	11361	12149	12447	26478	25586	37734	53904	51842
Cash & Equivalents	1216	1175	1671	1890	1861	1424	1541	14179	1140	536
Accounts Receivable	1205	1229	1250	1240	1187	1618	1618	1744	2319	2335
Inventories	1145	1245	1241	1402	1495	1959	1719	1818	2451	2579
Goodwill & Int. Ass.	1557	2106	2235	2315	2217	14924	13700	13456	40041	38463
Total Liabilities	4216	5602	7225	7106	7394	19314	17953	24786	32910	30665
Accounts Payable	325	305	350	333	401	631	665	797	1106	
Long-Term Debt	1698	2720	4166	3970	3971	12822	11551	18870	21495	19390
Shareholder's Equity	5435	4828	4136	5042	5053	7165	7634	12946	20992	21177
D/E Ratio	0.31	0.56	1.01	0.79	0.79	1.79	1.51	1.46	1.02	0.92

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.9%	12.7%	10.7%	11.0%	9.6%	3.6%	3.7%	3.5%	0.7%	2.3%
Return on Equity	24.9%	24.8%	26.1%	28.2%	23.5%	11.4%	13.2%	10.7%	1.8%	5.8%
ROIC	18.6%	17.3%	14.8%	14.9%	13.1%	4.8%	5.0%	4.3%	0.8%	2.9%
Shares Out.	230	215	197	194	192	211	213	228	265	265
Revenue/Share	29.67	33.52	36.85	40.43	42.72	49.55	57.38	54.08	60.40	62.92
FCF/Share	4.66	4.94	5.77	5.67	5.53	5.46	8.58	8.15	7.44	8.64

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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